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Labor Market Reforms in BiH: Flexibility without Security?

Introduction

The labor market in Bosnia and Herzegovina (BiH) is facing mounting challenges. Unemployment is continuously high and employment low. Factors such as the wartime destruction of industrial infrastructure, loss of business links due to the dissolution of Yugoslavia, inadequate adaptation to the new business and technological environment, failed privatization processes, and a generally unfavorable macroeconomic climate have had a negative impact on creating new jobs. In addition, the almost daily protests by workers owed salaries or benefits by their employers indicate grave weaknesses in the system of social security and protection of workers' rights.

Characteristics of the labor market in BiH¹

- The unemployment rate in 2014 was 27.5% for persons 15 and over.
- The employment rate in 2014 was 31.7% for persons 15 and over.
- Youth unemployment in 2014 was a staggering 62.7%.
- The share of long-term unemployed persons within the total number of the unemployed is extremely high: in 2014, some 85% of the unemployed had been looking for work for a year or longer.
- According to the estimates of the International Labor Organization (ILO), the share of those employed informally accounted for approximately 23% of total employment in BiH in 2013.

Given the inability to sufficiently stimulate growth and employment within the existing institutional framework, the labor market has recently become the focus of initiatives and debates on socio-economic reforms in BiH. Among BiH's reform commitments towards the International Monetary Fund (IMF) as part of the stand-by arrangement, labor market and labor legislation reforms are high on the agenda, while similar requirements have also become part of official European Union (EU) policy towards BiH and have been articulated in the "Compact for Growth and Jobs" (CGJ) initiative. The 2015-2018 Reform Agenda for BiH, which was adopted by entity and state governments in the context of potential candidacy for EU membership, also foresees that the entity governments would change their labor laws with the assistance of the World Bank and the IMF. A new Labor Law was adopted on 31 July 2015 in an expedited parliamentary procedure in the Federation (FBiH), while a new law is still not on the agenda of decision makers in Republika Srpska (RS). Finally, a significant number of measures from the National Economic Reform Programme (NERP) for BiH for 2015 pertain to the labor market.

¹ Unemployment and employment rates according to ILO definition. BiH Agency for Statistics, *Anketa o radnoj snazi za 2014. godinu* [2014 Labor Force Survey] (Sarajevo: BiH Agency for Statistics, 2014), available at: http://www.bhas.ba/ankete/LFS_2014_001_01_bh.pdf, p.31, 37, 59; ILO, *Global Employment Trends 2013* (Geneva, ILO: 2013), p. 60.

The proposed reforms focus on making working conditions more flexible to stimulate job creation. Reforms are supposed to facilitate employment² and rationalize severance pay³. Determining salaries on the basis of skills, qualifications, experience and performance,⁴ rather than years of service,⁵ is being proposed. Some packages, such as CGJ, focus on including young people in the workforce and enabling their temporary employment.⁶ Some of the reform packages also propose limiting the duration of collective agreements and their applicability only to companies and workers that want to join them on a voluntary basis.⁷ As a way to stimulate employment and economic growth, reform packages also propose reducing the burden on labor, mainly by reducing social contributions, particularly for health insurance.⁸

Proposals for reform are far less concerned with important aspects of workers' security and protection. According to a Letter of Intent to the IMF and the Reform Agenda, harmonizing labor laws with ILO standards and relevant EU directives will increase the protection of workers' rights. Moreover, the plan is to strengthen inspection controls and increase sanctions for labor law violations.⁹ NERP contains a proposal to increase the minimum wage in order to improve the socio-economic position of workers.¹⁰ Social protection is mentioned in proposals in the context of better targeting of social assistance and its more sustainable financing, pension system reform,¹¹ and exclusion of persons not actively looking for work from unemployment records,¹² but the issue of improving social security for workers is not addressed by the proposals.¹³ NERP proposes certain measures to improve active labor market policies¹⁴ as an important aspect of employment security, while lifelong learning, requalification and qualification improvement are not addressed to a more substantial degree in existing proposals.¹⁵

² See: EU Delegation in BiH, *Sporazum za rast i zapošljavanje u BiH* [Compact for Growth and Jobs in BiH] (Sarajevo: EU BiH, 2014), p. 6, http://europa.ba/wp-content/uploads/2015/05/delegacijaEU_2014090816171626bos.pdf; IMF, *BiH: Letter of Intent*, 13 June 2014, p. 10, <https://www.imf.org/external/np/loi/2014/bih/061314.pdf>

³ IMF, *BiH: Supplementary Letter of Intent Policies, and Technical Memorandum of Understanding*, 8 June 2014, p. 6, <http://www.imf.org/external/np/loi/2014/bih/010814.pdf>; See also: EU, *Compact for Growth and Jobs in BiH*, p. 6.

⁴ IMF, *BiH: Letter of Intent*, p. 10, and IMF, *BiH: Supplementary Letter of Intent*, p. 6.

⁵ EU BiH, *Compact for Growth and Jobs in BiH*, p. 11.

⁶ EU BiH, *Compact for Growth and Jobs in BiH*, pp. 6 and 11; Council of Ministers of BiH, *NERP for 2015* (Sarajevo, 2015), pp. 103 and 115, www.dep.gov.ba/naslovna/?id=1656.

⁷ IMF, *BiH: Letter of Intent*, p. 10. For more on collective agreements, see also: EU BiH, *Compact for Growth and Jobs in BiH*, pp. 6 and 11.

⁸ For example, the IMF proposes reducing contributions for health insurance in the mid-term period, which would entail a comprehensive reform of the healthcare system. IMF, *BiH: Letter of Intent*, p. 7. See also: EU BiH, *Compact for Growth and Jobs in BiH*, p. 5; Council of Ministers of BiH, *NERP for 2015*, pp. 115 and 102.

⁹ IMF, *BiH: Letter of Intent*, p. 10; *Reform Agenda*, p. 5, <http://www.fbihvlada.gov.ba/pdf/Reformaska%20agenda%20.pdf>.

¹⁰ Council of Ministers of BiH, *NERP for 2015*, pp. 103 and 115.

¹¹ EU BiH, *Compact for Growth and Jobs in BiH*, pp. 10-11.

¹² Council of Ministers of BiH, *NERP for 2015*, pp. 103, 107.

¹³ This issue is only mentioned in the Letter of Intent, where strengthening social protection for the unemployed is proposed as a response to rationalizing severance pay. IMF, *BiH: Supplementary Letter of Intent*, p. 6.

¹⁴ Council of Ministers of BiH, *NERP for 2015*, pp. 72; 103; 118; See also, *Reform Agenda*, pp. 4-5.

¹⁵ In NERP, the need to harmonize the education system with labor market needs is mentioned; furthermore, applying concepts of lifelong learning, professional development and training is pointed out as crucial. *Ibid.*, pp. 72, 106, 111.

Experiences from other countries and relevant research has shown that potential labor market reforms cannot be viewed only from the perspective of labor laws as an aspect of employment protection legislation (EPL), but that it is important to address the problems of the labor market as a whole, focusing on other important aspects of the labor market's institutional environment, such as social security, collective bargaining mechanisms, employment policies, training and education policies, and others. Current debates and experiences from other European countries pertaining to the labor market, with a particular focus on the flexibility vs. security debate, are featured below. Such debates and experiences may be useful to better understand the current situation and define an approach to reforms in BiH.

Labor Market Flexibility: Strengths and Weaknesses

Deregulating EPL¹⁶ in order to achieve greater flexibility of working conditions was recognized in the 1980s and 1990s as a solution to the unemployment problem and slow economic growth. Following the global financial crisis of the 1970s, the assumption was that high unemployment and slow economic growth were caused by a “rigid” labor market – strict employment protection, high minimum wages and generous unemployment benefits – rather than by insufficient demand.¹⁷ At that time, the flexibility of working conditions was also believed to be important due to the need to adapt and reorganize industrial production because of increased international competition and technological innovation, which was not always compatible with centralized and uniform rules determining modes of production and working conditions.¹⁸

Increasing flexibility in that sense means adapting working conditions, usually in the following ways:¹⁹

- *numerical/external flexibility*, which means adapting the number of workers in response to changes in technology or demand, and use of “more flexible” contracts, such as part-time contracts, for easier employment;
- *functional/internal or technical-organizational flexibility*, meaning that tasks are adjusted depending on need and demand, which can entail developing new skills and requalification within the company;
- *wage/financial flexibility*, meaning the adaptation of pay levels and structure;
- *temporal flexibility*, meaning the adjustment of the amount of work to cyclic/seasonal changes in demand by adapting working hours (overtime, work in shifts, part-time work, etc.).

¹⁶ Employment protection legislation usually regulates individual and collective dismissals, part-time work, the right to severance pay, consultation requirements in the case of dismissal, judicial protection, etc.

¹⁷ Nathalie Morel, Bruno Palier and Joakim Palme, “Beyond the welfare state as we knew it?” *Towards a social investment welfare state? Ideas, policies and challenges*, ed. Nathalie Morel, Bruno Palier and Joakim Palme (Bristol, UK: The Policy Press, 2012), pp. 5-7.

¹⁸ Marino Regini, “The Dilemmas of Labour Market Regulation,” *Why Deregulate Labour Markets?* ed. Gøsta Esping-Andersen and Marino Regini (New York, NY: Oxford University Press, 2000), p. 13; Manuela Samek Lodovici, “The Dynamics of Labour Market Reform in European Countries,” *Why Deregulate Labour Markets?* ed. Gøsta Esping-Andersen and Marino Regini (New York, NY: Oxford University Press, 2000), p. 32.

¹⁹ Regini, “The Dilemmas of Labour Market Regulation,” pp. 16-17; 26.

External flexibility and, to a certain extent, wage and temporal flexibility are currently being advocated in BiH. Focusing on increased flexibility stems from the assumption that labor laws may have a negative effect on employment growth²⁰ and that changing legislation will result in the creation of new jobs.²¹ Support for such assumptions can partly be found in the experience of individual countries and in some empirical research. For example, some studies have shown that stricter EPL slows down market labor flows,²² which means that it is more difficult for the unemployed to find work. This can particularly affect certain groups such as youth, women, and low-qualified workers²³. Other studies have shown that strict dismissal regulation has a tendency to reduce multi-factor productivity.²⁴ Experiences from individual countries, such as the Netherlands in the 1990s, have shown that employment of women significantly increased as a result of more flexible working conditions and access to part-time work. Studies of deregulation in eight European countries in the 1990s have shown that targeted and partial deregulation may have positive, but selective results; in other words, deregulation strategies have usually had an effect on the structure of the unemployed.²⁵

However, it is important to point out that the assumption that unemployment is a result of a rigid institutional framework of the labor market has become seriously disputed in the past ten years, as research on the effects of EPL on aggregate employment and unemployment rates in various countries produced ambiguous results.²⁶ On the other hand, research has also shown that labor market institutions such as collective bargaining mechanisms may reduce wage inequality,²⁷ and may increase the readiness of employers to make long-term investments in the workforce through training and education.²⁸ At the same time, labor market institutions can provide resources and create a competitive advantage – for example, collective bargaining mechanisms can encourage organizational and technological changes, i.e. increased investment in training and education within the company, thus contributing to increased productivity.²⁹

²⁰ IMF, *BiH: Letter of Intent, and Technical Memorandum of Understanding*, 9 October 2013, p. 7, <http://www.imf.org/external/np/loi/2013/bih/100913.pdf>.

²¹ An additional reason for the emphasis on increasing flexibility of working conditions through a change of labor laws and collective agreements relates to employment protection in the public sector. As a result of the crisis and reduced revenue from taxes and other sources, the public sector is unable to fulfil its obligations towards employees, and at the same time it is not able to achieve savings by reducing salaries, shortening working hours or laying off surplus staff. Such a state is in direct contradiction with the aim of rationalizing public expenditure within the stand-by arrangement.

²² Organisation for Economic Co-operation and Development (OECD), *Employment Outlook 2013* (Paris: OECD, 2013), pp. 71-72.

²³ Gøsta Esping-Andersen and Marino Regini, "Conclusions," *Why Deregulate Labour Markets?* ed. Gøsta Esping-Andersen and Marino Regini (New York, NY: Oxford University Press, 2000), p. 337.

²⁴ OECD, *Employment Outlook 2013*, p. 73.

²⁵ Esping-Andersen and Regini, "Conclusions," pp. 337, 339.

²⁶ OECD, *Employment Outlook 2004* (Paris: OECD, 2004), p. 81; OECD, *Employment Outlook 2013*, p. 71.

²⁷ Richard B. Freeman, "Labour market institutions without blinders: The debate over flexibility and labour market performance," *International Economic Journal* 19, no. 2 (2006), p. 137.

²⁸ Sabina Avdagic and Paola Salardi, 2013, "Tenuous link: labour market institutions and unemployment in advanced and new market economies", *Socio-Economic Review* 11 (2013), p. 745.

²⁹ Regini, "The Dilemmas of Labour Market Regulation," p. 26.

Moreover, it should be noted that Europe is not a homogeneous entity when it comes to labor market traits and the outcomes of deregulation policy, and that there are significant variations among European countries. This is usually attributed to great differences in the institutional environments of labor markets, which has significant implications on policy implementation.³⁰ For example, deregulation of part-time contracts during the 1980s in Spain and Germany had different results: in Spain, such contracts became widespread, while in Germany, one third of employers had no interest in using such contracts as they wanted longer-term working relations with their employees.³¹ These divergent experiences of two EU member states are usually ascribed to an efficient system of coordination between representatives of employers and workers and long-term strategies for investment in the workforce, which are more prevalent in Germany than Spain. Still, it should be noted that not all countries have had the same approach to deregulation – in some countries, flexibility is the guiding principle that shapes legislation and strategies of social partners (for example, the UK and to an extent Sweden and the Netherlands), while in others, it is treated as a “controlled experiment” and applied only to one segment of the labor market.³²

Differences in the complex institutional environment also mean that positive outcomes in the labor market cannot be attributed exclusively to deregulation. In the Netherlands, the drop in unemployment in the 1990s is also ascribed to the continuous adjustment and restraint of real wages thanks to efficient and coordinated collective bargaining mechanisms between social partners. In this case, the readiness of unions to accept caps on wages was compensated with the creation of new jobs, reduced working hours, requirements imposed on employers to organize and finance training activities, etc.³³ In other words, bargaining structures were shown to be an exceptionally important factor affecting labor market performance and able to mitigate labor market problems. Another important factor that is seen to affect labor market performance is quality of education: for example, thanks to the German dual system of education, which combines education with practice, young people are less likely to be unemployed.³⁴

In the current debates surrounding reforms in BiH, not enough consideration is given to the potential risks of increased flexibility, with the segmentation of the labor market being one of them. In order to facilitate the adjustment of companies to market conditions, many European countries have implemented partial flexibilization in the past two decades, which means that they have to a lesser extent increased the flexibility of working conditions for those employed on regular contracts, but have more significantly increased the flexibility of temporary, seasonal, and other atypical contracts.³⁵ Such labor relations have made it easier for groups that traditionally have difficulties in accessing the labor market, such as young people, women, low-skilled and long-term unemployed persons to find work. However, increased external and wage flexibility of these contracts has led to the dualization of the labor market, so that the employees on regular contracts (insiders) enjoy

³⁰ Apart from institutional factors, the specificities of the labor market in a given period of time – e.g. de-ruralization, de-industrialization – may certainly have an effect on employment and unemployment. Esping-Andersen and Regini, “Conclusions,” p. 339.

³¹ Samek Lodovici, “The Dynamics of Labour Market Reform in European Countries,” p. 33.

³² Esping-Andersen and Regini, “Conclusions,” p. 336.

³³ Cees Gorter, “The Dutch Miracle?” *Why Deregulate Labour Markets?* ed. Gøsta Esping-Andersen and Marino Regini (New York, NY: Oxford University Press, 2000), p. 205.

³⁴ Esping-Andersen and Regini, “Conclusions,” p. 339.

³⁵ Simon Deakin, *Addressing labour market segmentation: the role of labour law* (Geneva: ILO, 2013), p. 2.

much greater protection compared to temporary workers (outsiders).³⁶ The consequences of dualism are inequality and discrimination (on the basis of gender, age, ethnicity, etc.), but also inefficiency in the production process (reduced productivity of workers).³⁷ In Spain, for instance, the flexibilization of employment conditions for temporary contracts has led to labor market segmentation as reforms did not create incentives to train or re-hire temporary workers for regular positions;³⁸ moreover, there was a large increase in temporary contracts and decrease in regular contracts.³⁹ When the gap in the regulation between temporary and regular employment is particularly wide, the transition between these two types of employment is low, which means that outsiders usually go from one temporary job to the next, while insiders enjoy protection and stability.⁴⁰

Although there is a possibility that potential labor market reforms in BiH may help certain groups, such as young people, women and the low-skilled workforce to find employment more easily, it is important to consider the potential hazards of labor market segmentation in the event of increased flexibility for fixed-term employment, which is advocated in some reform proposals. In other words, these categories may face working on fixed-term contracts for longer periods of time, may have to change jobs frequently and enjoy a lower level of employment security and job quality.

It is also important to mention that current reform proposals do not include estimates on whether or not and if, to what extent, the current regulatory framework of the labor market in BiH truly is rigid, and to what extent high unemployment and low employment may be specifically attributed to the labor law, as opposed to other factors such as a limited scope of economic activity and low demand. Moreover, there has been no assessment of whether or not reducing the “rigidity” of the regulatory framework will indeed lead to increased employment. Although OECD *Indicators of employment protection*,⁴¹ which are often used to measure the rigidity of regulatory frameworks, are not a complete indicator of potential rigidity of the regulatory environment since they primarily focus on obstacles to the dismissal and hiring of workers, some estimates using these indicators to date in the case of BiH show that labor legislation is not more rigid when compared to the EU average, except in the case of fixed-term contracts, and that is less rigid than the EU average for regular employment.⁴² However, assessments of the potential rigidity of employment protection in BiH should certainly take into account the practice in this realm: e.g. how labor legislation and collective agreements are implemented and enforced in practice, the case law pertaining to labor disputes, as well as significant differences in the protection of employees between the public and private sectors.

³⁶ Regini, “The Dilemmas of Labour Market Regulation,” pp.19-20.

³⁷ Deakin, *Addressing labour market segmentation*, p. 1; OECD, *Employment Outlook 2014*, pp. 17-18.

³⁸ Esping-Andersen and Regini, “Conclusions”, p. 340.

³⁹ OECD, *Employment Outlook 2013*, p. 72.

⁴⁰ *Ibid.*, pp. 72-73.

⁴¹ For more on the methodology applied by the OECD, see: OECD *Indicators of Employment Protection*, 2015, <http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm>.

⁴² Refers to the EU15 average for 2003. Assessment of EPL indicators for BiH pertains to 2007. ILO, *Delivering decent work in Europe and Central Asia (I/II)* (Geneva: ILO, 2009), pp. 53-55. http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/documents/meetingdocument/wcms_359771.pdf

Neglected Security

Although a more dynamic labor market could make it easier for a worker to find a job that corresponds to their skills, as well as easier advancement in terms of their career and pay, it also entails dismissal and loss of income for those left without a job. In the case of the deregulation of EPL, such consequences must be mitigated by adequate unemployment benefits, active labor market policy (ALMP) measures⁴³ as well as lifelong learning programs.⁴⁴ In the current discussions surrounding labor market reforms in BiH, little attention is devoted to the issue of protection for workers in the event of unemployment and their social security.

In terms of security, a distinction is often made between job security afforded by employment protection legislation and employment and income security. *Employment security* means that it will be easier for the unemployed to find jobs thanks to ALMPs or lifelong learning, qualification improvement or re-qualification programs. *Income security* is achieved through unemployment benefits, with an adequate replacement rate for the income received while employed.

Security is an important component of official EU policy in the realm of employment, which promotes the concept of secure flexibility or “flexicurity”. Flexicurity entails the flexibilization of working conditions in combination with income security, ALMPs and lifelong learning programs. Inspired by the positive experiences of the Netherlands and Denmark in implementing flexicurity policies, the European Union adopted flexicurity in 2007 as an important component of its policies in the realm of employment, included in *Guidelines for the employment policies of Member States* (2010) and the *Europe 2020* strategy.⁴⁵

Nevertheless, member states have different approaches to labor market flexibility and security (see Graph 1). During the financial crisis, some EU member states further increased the flexibility of working conditions and reduced unemployment benefits or funding for active labor market policies.⁴⁶ Differences in approach are attributed, *inter alia*, to diverse institutional environments of the labor market, which brings into question the applicability of the Dutch or Danish experience in other countries. For example, the success in implementing flexicurity policy in Denmark was considerably helped by very coordinated processes of collective bargaining and social dialogue, given that unions in this country accepted a greater external flexibility of working conditions in exchange for greater security of workers, and employers agreed to a larger tax wedge in exchange for flexibility of working

⁴³ Such measures may include assistance to unemployed persons in finding work, training, co-financing of employment, etc. In some European countries, unemployment benefits are conditional upon participation in such programs. For example, see Danielle Venn, “Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries,” OECD Social, Employment and Migration Working Papers, no. 131 (Paris: OECD, 2012).

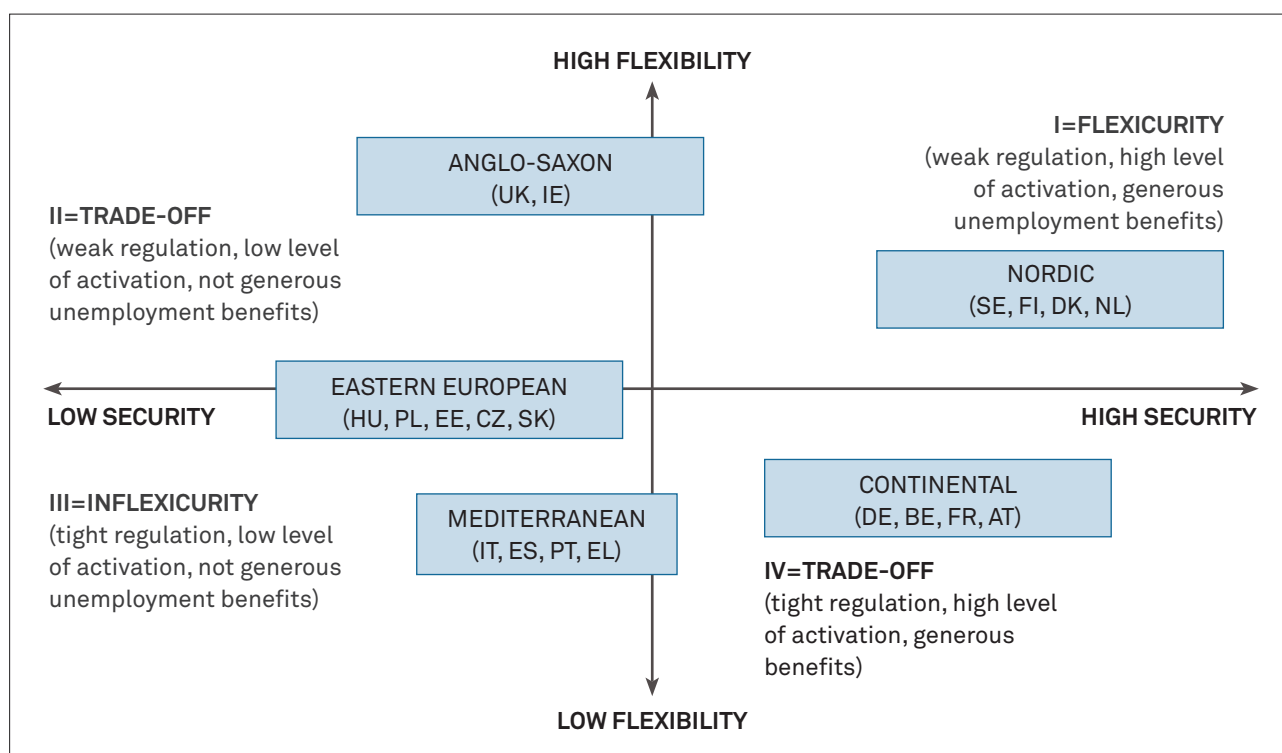
⁴⁴ OECD, *Employment Outlook 2013*, p. 68.

⁴⁵ “Council Decision of 21 October 2010 on guidelines for the employment policies of Member States” (2010/707/EU), *Official Journal of the European Union*, 24 November 2010; *EUROPE 2020: A strategy for smart, sustainable and inclusive growth*, Brussels, 3 March 2010.

⁴⁶ Recent research by the European Commission shows that flexicurity policies were not more substantially implemented in European countries in the recent period, to a large extent because of the financial crisis. European Commission, *Flexicurity in Europe, Final report* (Brussels: EU, 2013), pp. 3-4.

conditions. In addition, the state ensured adequate institutional support for the implementation of employment measures and support for the unemployed.⁴⁷

In the context of labor market dualism, there is increasing awareness that labor market performance should not be assessed only in terms of the quantity, but also the quality of jobs, which entails security.⁴⁸ A proposal to resolve the problem of dualism includes strategies to combine potential flexibilization of working conditions with complementary mechanisms that reduce risks in the labor market, including collective bargaining mechanisms, legal framework against unjust dismissal, income security, ALMPs, etc.⁴⁹ However, most of these vital elements of labor market reform are neglected or only marginally addressed by the current proposals for reform in BiH.



Graph 1. Theoretical classification of policy regimes and states in the “flexicurity quadrant”

Source: Muffels and Wilthagen (2013)⁵⁰

⁴⁷ Søren Kaj Andersen and Mikkel Mailand, *The Danish Flexicurity Model: The Role of the Collective Bargaining System*, 2005, http://faos.ku.dk/english/pdf/publications/2005/The_Danish_Flexicurity_Model_0905.pdf.

⁴⁸ For example, see OECD, *Employment Outlook 2014* (Paris: OECD, 2004), pp. 17-18.

⁴⁹ Simon Deakin, *Addressing labour market segmentation*, pp. 1-3.

⁵⁰ Adapted from: Muffels and Luijkx (2008), in: Ruud Muffels and Ton Wilthagen, “Flexicurity: A new paradigm for the analysis of labor markets and policies challenging the trade-off between flexibility and security,” *Sociology Compass* 7, no. 2 (2013), p. 117.

Given that current proposals place emphasis on increasing flexibility of working conditions, the security of workers is particularly important. Namely, existing measures of support for the unemployed in BiH are generally perceived as inadequate and inefficient. The system of unemployment benefits does not provide the unemployed with an adequate level of social security, as the replacement rate⁵¹ is very low⁵² in both entities; furthermore, in FBiH, unemployment benefits are not calculated on the basis of the income of workers dismissed, as in most EU states, but rather on the basis of the average salary in FBiH.⁵³ According to data from March 2015, only some 2.5% of the registered unemployed in BiH were receiving unemployment benefits. Only 3.7% of the registered unemployed in BiH participated in ALMP measures in 2010.⁵⁴ For the sake of comparison, the EU28 average in 2009 was 29.5%.⁵⁵ In addition, according to data from 2011, the cost of ALMP measures amounted to 0.09% of the GDP of the country, which places BiH at the very bottom of the list of countries of Southeast Europe when it comes to such policies;⁵⁶ for the sake of comparison, in the same year, the EU28 countries spent 0.47% of their GDP for this purpose.⁵⁷

Conclusion

Increasing the flexibility of working conditions is the focus of current proposals for labor market reform in BiH, but much less consideration is given to other important measures, such as improving policies and the institutional framework for employment and the security of workers in the event of unemployment, improving collective bargaining mechanisms, developing educational and training programs, etc. Given the gravity of the labor market problems in BiH, it is questionable to what extent deregulation can have a significant impact on employment and unemployment. For example, the experience of some European countries that implemented labor market reforms in the 1990s shows that managing unemployment is made significantly easier where social partners were capable of strong coordination and consensus building, while resolving the problem of unemployment was

⁵¹ Ratio of income from unemployment benefits and income received while employed.

⁵² In FBiH, the replacement rate is 40% of the average net salary in FBiH in the three months prior to the termination of employment, and in RS, it is 35% or 40% of the average salary of the unemployed person in the last three months of employment, depending on period of insurance. The minimum duration of benefits depends on duration of employment and varies from 1-12 months in RS and 3-24 months in FBiH. "Zakon o posredovanju u zapošljavanju i socijalnoj sigurnosti nezaposlenih osoba" [Law on Mediation in Employment and Social Security of Unemployed Persons], *Official Gazette of FBiH* 55/00, 41/01, 22/05, and 9/08, Art. 29-30; "Zakon o posredovanju u zapošljavanju i pravima za vrijeme nezaposlenosti," [Law on Mediation in Employment and Rights during Unemployment] *Official Gazette of RS* 72/12, Art. 39 and 46. For comparison with EU states, see Ingrid Esser et al., *Unemployment Benefits in EU Member States*, European Commission (Brussels: EU, 2013).

⁵³ See Centers for Civic Initiatives, *Analiza politika zapošljavanja u BiH, nacrt* [Analysis of Employment Policies in BiH, draft] (Sarajevo: CCI, 2013), p. 45.

⁵⁴ European Training Foundation, *Activating the Unemployed: Optimising Activation Policies in the Western Balkans and Turkey* (Torino: European Training Foundation, 2011), p. 10.

⁵⁵ Eurostat, Activation-support - LMP participants per 100 persons wanting to work, <http://ec.europa.eu/eurostat/web/labour-market/labour-market-policy/database>, 2015.

⁵⁶ Centre of Public Employment Services of Southeast European Countries, *Statistički informator br. 4* [Statistical Bulletin No.4], 2013, p. 44.

⁵⁷ Eurostat, LMP expenditure: Total LMP measures (categories 2-7), <http://ec.europa.eu/eurostat/web/labour-market/labour-market-policy/database>, 2015.

more difficult in the case of a “simultaneous market and government failure in the production of the kinds of skills that are required,”⁵⁸ as is the case in BiH today.

Comparative experience shows that successful reforms must take into account all labor market institutions, the way they are configured and how they interact with each other, as well as how they fit into the overall economic model of the country. As pointed out by some authors, in these matters, “we should be exceedingly skeptical about importing or copying ‘models’ from one country to the next”.⁵⁹ The key question is what kinds of reforms would function in BiH, which means that various aspects and mutual interaction between segments of the labor market must be viewed within the specific wider context of the state, leading to careful assessment and the development of regulatory and other reforms.

Given that BiH faces a combination of structural and cyclical unemployment, a systemic, integral approach to reforms is required: a strong emphasis of authorities should be on macroeconomic policies in order to increase demand and stimulate the creation of new jobs, as well as on active labor market and education and training policies. In other words, partial reforms focusing only on individual segments of the labor market and insisting on only a single aspect of the problem, such as flexibility, without taking into account the wider institutional environment, may have very uncertain outcomes and potentially result in a further deterioration of the socio-economic situation.

⁵⁸ Esping-Andersen and Regini, “Conclusions”, p. 340-341.

⁵⁹ Ibid., 340.



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